

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

RICHARD H. GILBERT, JR., CPA
DEPUTY STATE AUDITOR

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December 20, 2007

Mr. Chris Stenger
Vice President of Planning and Reimbursement
Sava Senior Care Administrative Services, LLC
5300 West Sam Houston Parkway North, Suite 200
Houston, Texas 77041

Re: AC# 3-MAE-J3 – GranCare South Carolina, Inc.
d/b/a Mariner Health Care of Sumter - East

Dear Mr. Stenger:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 2002 through September 30, 2003. That report was used to set the rate covering the contract period beginning October 1, 2004.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976, as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

Yours very truly,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", written over a horizontal line.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/sag

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Ms. Kathleen C. Snider

**GRANCARE SOUTH CAROLINA, INC.
D/B/A MARINER HEALTH CARE OF SUMTER - EAST
SUMTER, SOUTH CAROLINA**

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2004
AC# 3-MAE-J3**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 25, 2007

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

We have performed the procedures enumerated below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter - East, for the contract period beginning October 1, 2004, and for the twelve month cost report period ended September 30, 2003, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter - East is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the South Carolina Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter - East, to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the Provider. Our findings as a result of these procedures are presented in the Summary of Costs and Total Patient Days, Adjustment Report, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the South Carolina Department of Health and Human Services and GranCare South Carolina, Inc. d/b/a Mariner Health Care of Sumter - East dated as of October 1, 2001, as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services
State of South Carolina
May 25, 2007

We were not engaged to and did not conduct an examination, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Richard H. Gilbert, Jr.", with a stylized flourish at the end.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

MARINER HEALTH CARE OF SUMTER - EAST

Computation of Rate Change
For the Contract Period
Beginning October 1, 2004
AC# 3-MAE-J3

10/01/04-
09/30/05

Interim Reimbursement Rate (1)	\$102.35
Adjusted Reimbursement Rate	<u>98.70</u>
Decrease in Reimbursement Rate	\$ <u><u>3.65</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing as of January 24, 2007

MARINER HEALTH CARE OF SUMTER - EAST
Computation of Adjusted Reimbursement Rate
For the Contract Period October 1, 2004 Through September 30, 2005
AC# 3-MAE-J3

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$48.91	\$ 70.99	
Dietary		9.63	12.15	
Laundry/Housekeeping/Maintenance		<u>7.72</u>	<u>10.42</u>	
Subtotal	<u>\$6.55</u>	66.26	93.56	\$66.26
Administration & Medical Records	<u>\$3.41</u>	<u>11.65</u>	<u>15.06</u>	<u>11.65</u>
Subtotal		77.91	<u>\$108.62</u>	77.91
<u>Costs Not Subject to Standards:</u>				
Utilities		2.71		2.71
Special Services		-		-
Medical Supplies & Oxygen		3.29		3.29
Taxes and Insurance		2.59		2.59
Legal Fees		<u>-</u>		<u>-</u>
TOTAL		<u>\$86.50</u>		86.50
Inflation Factor (4.70%)				4.07
Cost of Capital				6.60
Cost of Capital Limitation				(.22)
Profit Incentive (Maximum 3.5% of Allowable Cost)				3.03
Cost Incentive				6.55
Effect of \$1.75 Cap on Cost/Profit Incentives				<u>(7.83)</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$98.70</u>

MARINER HEALTH CARE OF SUMTER - EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-MAE-J3

<u>Expenses</u>	<u>Totals (From Schedule SC 13) as Adjusted by DH&HS</u>	<u>Adjustments Debit</u>	<u>Credit</u>	<u>Adjusted Totals</u>
General Services	\$3,083,283	\$ 2,141 (4)	\$53,276 (3) 2,811 (3) 13,305 (5)	\$3,016,032
Dietary	600,256	-	6,316 (3)	593,940
Laundry	110,066	-	1,652 (3)	108,414
Housekeeping	226,023	-	3,855 (3)	222,168
Maintenance	144,963	2,352 (4)	1,538 (3) 323 (5)	145,454
Administration & Medical Records	813,598	-	6,236 (3) 994 (3) 87,833 (4) 250 (5)	718,285
Utilities	166,836	-	6 (4)	166,830
Special Services	260	6,001 (4)	3,831 (3) 2,165 (5)	265
Medical Supplies & Oxygen	226,485	-	554 (3) 22,729 (5)	203,202
Taxes and Insurance	173,657	157 (4)	14,347 (2)	159,467
Legal Fees	15	-	-	15

MARINER HEALTH CARE OF SUMTER - EAST
Summary of Costs and Total Patient Days
For the Cost Report Period Ended September 30, 2003
AC# 3-MAE-J3

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&HS</u>	Adjustments		Adjusted <u>Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	397,691	2,116 (1) <u>17,343 (6)</u>	10,016 (4)	407,134
Subtotal	5,943,133	30,110	232,037	5,741,206
Ancillary	164,285	-	-	164,285
Nonallowable	1,788,720	14,347 (2) 81,063 (3) 87,204 (4) 37,373 (5)	2,116 (1) 17,343 (6)	1,989,248
CNA Training and Testing	-	-	-	-
Total Operating Expenses	<u>\$7,896,138</u>	<u>\$250,097</u>	<u>\$251,496</u>	<u>\$7,894,739</u>
Total Patient Days	<u>61,670</u>	<u>-</u>	<u>-</u>	<u>61,670</u>
Total Beds	<u>176</u>			

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MAE-J3

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Fixed Assets	\$43,915	
	Other Equity	713	
	Cost of Capital	2,116	
	Accumulated Depreciation		\$44,628
	Nonallowable		2,116
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	14,347	
	Taxes and Insurance		14,347
	To adjust liability insurance expense HIM-15-1, Section 2304		
3	Nonallowable	81,063	
	Nursing		53,276
	Restorative		2,811
	Dietary		6,316
	Laundry		1,652
	Housekeeping		3,855
	Maintenance		1,538
	Administration		6,236
	Medical Records		994
	Medical Supplies		554
	Special Services		3,831
	To adjust fringe benefits and related allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Nursing	2,141	
	Maintenance	2,352	
	Taxes and Insurance	157	
	Special Services	6,001	
	Nonallowable	87,204	
	Administration		87,833
	Utilities		6
	Cost of Capital		10,016
	To adjust home office cost allocation HIM-15-1, Section 2304 DH&HS Expense Crosswalk		

MARINER HEALTH CARE OF SUMTER - EAST
Adjustment Report
Cost Report Period Ended September 30, 2003
AC# 3-MAE-J3

ADJUSTMENT NUMBER	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
5	Retained Earnings	1,399	
	Nonallowable	37,373	
	Nursing		13,305
	Maintenance		323
	Administration		250
	Medical Supplies		22,729
	Special Services		2,165
	To remove special (ancillary) services reimbursed by Medicare and properly charge expense applicable to the prior period HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
6	Cost of Capital	17,343	
	Nonallowable		17,343
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$ <u>296,124</u>	\$ <u>296,124</u>

Due to the nature of compliance reporting,
adjustment descriptions and references
contained in the preceding Adjustment
Report are provided for general guidance
only and are not intended to be all-
inclusive.

MARINER HEALTH CARE OF SUMTER - EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-MAE-J3

Original Asset Cost (Per Bed)	\$ 15,618	\$ 15,618	
Inflation Adjustment	<u>2.63785</u>	<u>2.63785</u>	
Deemed Asset Value (Per Bed)	41,198	41,198	
Number of Beds	<u>88</u>	<u>88</u>	
Deemed Asset Value	3,625,424	3,625,424	
Improvements Since 1981	662,256	668,993	
Accumulated Depreciation at 9/30/03	<u>(1,555,656)</u>	<u>(1,316,855)</u>	
Deemed Depreciated Value	2,732,024	2,977,562	
Market Rate of Return	<u>.0531</u>	<u>.0531</u>	
Total Annual Return	145,070	158,109	
Return Applicable to Non-Reimbursable Cost Centers	-	-	
Allocation of Interest to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	
Allowable Annual Return	145,070	158,109	
Depreciation Expense	61,688	46,596	
Amortization Expense	153	152	
Capital Related Income Offsets	(2,317)	(2,317)	
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>-</u>	<u>-</u>	<u>Total</u>
Allowable Cost of Capital Expense	204,594	202,540	\$407,134
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>	<u>30,835</u>	<u>61,670</u>
Cost of Capital Per Diem	\$ <u>6.64</u>	\$ <u>6.57</u>	\$ <u>6.60</u>

MARINER HEALTH CARE OF SUMTER - EAST
Cost of Capital Reimbursement Analysis
For the Cost Report Period Ended September 30, 2003
AC# 3-MAE-J3

6/30/89 Cost of Capital and Return on Equity Capital Per Diem Reimbursement	\$4.13	\$2.13
Adjustment for Maximum Increase	<u>3.99</u>	<u>3.99</u>
Maximum Cost of Capital Per Diem	<u>\$8.12</u>	<u>\$6.12</u>
Reimbursable Cost of Capital Per Diem		\$6.38
Cost of Capital Per Diem		<u>6.60</u>
Cost of Capital Per Diem Limitation		<u>\$(.22)</u>

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